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ABSTRACT

This unit on managing human resources in a small business, the 12th in a series of 18 modules, is on the second level of the revised PACE (Program for Acquiring Competence in Entrepreneurship) comprehensive curriculum. Geared to advanced secondary and beginning postsecondary or adult students, the modules provide an opportunity to learn about and try out entrepreneurship ideas so that students can make a preliminary assessment of how these ideas relate to personal needs. The units on this level contain detailed explanations of small business principles, suggestions on how to find information and use techniques, and encouragement for creating a future business. Students completing this unit should be able to perform these competencies: (1) identify the steps involved in hiring employees, (2) describe the procedures for developing a training program, (3) explain various styles of management, (4) describe techniques that may be used to supervise and motivate employees, (5) describe methods for communicating with employees, (6) discuss alternatives for evaluating employee performance, and (7) identify the steps in developing a comprehensive employee compensation package. The unit is organized into five sections. Following a preliminary section on how to use the unit (with vocabulary and a review of the objectives for this topic on level 1), the unit's information is presented in question-and-answer format. Individual and group activities, an assessment to be completed with the teacher, and sources used to develop the unit follow. A list of the modules of Revised PACE, Level 2 completes the unit. (KC)

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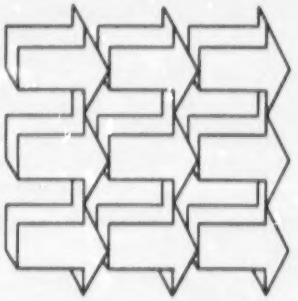
PACE
REVISED
Program for Acquiring Competence in Entrepreneurship



UNIT 12

☐ Level 1
☑ Level 2
☐ Level 3

Managing Human Resources

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Developed by M. Catherine Ashmore and Sandra G. Pritz

You will be able to:

- **Identify the steps involved in hiring employees.**
- **Describe the procedures for developing a training program.**
- **Explain various styles of management.**
- **Describe various techniques that may be used to supervise and motivate employees.**
- **Describe various methods for communicating with employees.**
- **Discuss various alternatives for evaluating employee performance.**
- **Identify the steps in developing a comprehensive employee compensation package.**

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BEFORE YOU BEGIN. . .

1. Consult the *Resource Guide* for instructions if this is your first PACE unit.

2. Read the Unit Objectives on the front cover. If you think you can meet these objectives now, consult your instructor.

3. These objectives were met at Level 1:

   - Define human resource management
   - Explain the importance of human resource management as it relates to the success of a business
   - Identify the various responsibilities that make up human resource management
   - Describe the obligations employers have to employees

   If you feel unsure about any of these topics, ask your instructor for materials to review them.

4. Look for these business terms as you read this unit. If you need help with their meanings, turn to the Glossary in the *Resource Guide*.

   compensation
   human resource management

MANAGING HUMAN RESOURCES

WHAT IS THIS UNIT ABOUT?

Finding and managing productive employees is important to small business owners. Payroll and other employee expenses frequently make up one of the largest expenditures small business incur. In addition, the efforts of employees greatly contribute to customer satisfaction and repeat business. And without good customer relations, the business will have difficulty surviving, growing, and returning a profit.

In this unit you will learn about recruiting new employees and preparing them to be productive through training. Once they are working you must supervise your employees, communicate with them, and motivate them. Then you will read about evaluating and compensating your employees. This unit is about managing your company's most vital asset—human resources.

WHAT IS JOB ANALYSIS?

Do you know what it takes to be a productive employee? Obviously, it depends on the job. For example, a productive salesperson may not make a good bookkeeper and vice versa. Finding a productive employee requires that you study the job, determine what it consists of, and conclude what kind of person it takes to successfully carry out the responsibilities.

Job analysis is the process of studying the job to determine what it consists of and what skills and experience a worker needs. It is the first step in finding and hiring a new employee. If you don't thoroughly know the job and what it takes to be productive in this position, how will you know what kind of new employee you want?

The job analysis consists of detailing all the job duties to determine exactly what tasks an employee must perform. Based on the tasks to be performed, you must then determine what qualifications are necessary. These qualifications may be organized into categories like education, personal experience, physical skills, and communications skills.

WHAT IS THE JOB DESCRIPTION?

The *job description* is the written summary of the data collected in the job analysis. It frequently consists of a general statement summarizing what the job involves. The place of the job in the overall organizational structure should be identified. Often, the immediate supervisor is specified also. Principal duties make up an important part of the job description, too. Finally, the minimum educational, personality, and physical characteristics required are listed.

The job description is somewhat short—perhaps only a page or two. It provides a comprehensive yet concise overview of the job and it profiles what kind of person you will want to hire.

HOW DO YOU RECRUIT NEW EMPLOYEES?

Recruiting involves obtaining qualified applicants for the job you wish to fill. Knowing what kind of person you are looking for makes it much easier to decide where to look. Your job description will help you in determining what recruiting sources to use.

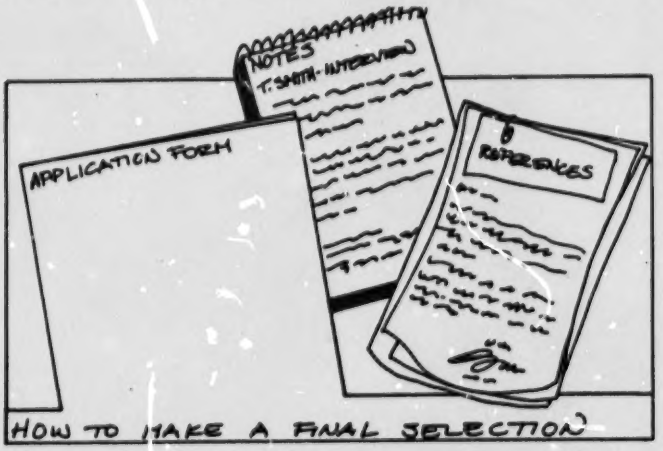
There are many methods of contacting potential employees. The ones most commonly used by small business owners include—

- Help wanted signs
- Newspaper ads
- Word of mouth
- Competitors
- Employment agencies
- Employee referrals
- Family and relatives
- Schools

Each has its advantages and disadvantages. The table on the next page summarizes the positive and negative sides of each of these methods. Remember, you will want to use those most likely to attract the kind of person you wish to hire.

HOW DO YOU MAKE THE FINAL SELECTION?

Once you have recruited several applicants, it is necessary to decide which one(s) to hire. The final selection is usually based upon an analysis of the application form, how you feel about the person after an interview, and the recommendations of references.



The application form is an efficient means for gathering basic facts that can then be discussed further during an interview. For many small businesses, the application form is fairly short and simple. You may make up your own or you can buy standard forms at office supply businesses. Generally, application forms ask questions related to previous employment, education, and personal data. They should reveal whether the applicant has the minimal job requirements. If the applicant's qualifications look satisfactory, then it is time for the interview.

The interview is used to clarify information from the application; evaluate the applicant's appearance, composure, and communication skills; gather more information that would help you to decide if the applicant is well suited for the job; and tell the applicant more about the job. Because it involves gathering so much information, the interview may be difficult to conduct, and you may feel concerned. It is important to remember that most applicants are nervous, too.

TABLE 1

METHODS OF CONTACTING POTENTIAL EMPLOYEES

Method	Advantages	Disadvantages
Help Wanted Sign	Inexpensive and may get wide exposure to those who live near your business.	Doesn't describe job in any way and may bring in those with few qualifications.
Newspaper Ads	Many people are likely to see them; may describe job in an attractive way; may direct applicant to respond in person, by telephone, or by mail.	May not screen out unqualified persons. May bring in more applicants than you can efficiently handle.
Word of Mouth	Inexpensive.	Doesn't guarantee any results. May bring in unqualified applicants.
Competitors	Applicants may already be trained and understand the business.	May cause bad feelings between you and your competitors.
Employment Agencies	Will screen applicants and send the most qualified.	Expensive; and may try to "sell" you on someone you don't want.
Employee Referrals	Since your employees already know you and your business, they may bring in a qualified applicant. This is an inexpensive method.	Friends of employees may be recommended without regard to qualifications; may be difficult to turn down without hurting feelings.
Family and Relatives	Because they are related to you, they may take more of an interest in your business. Is also an inexpensive method.	May not be qualified; may create conflict within the family.
Schools	Applicants may already be trained; may be eager to work; usually inexpensive.	Applicants may lack experience.

To conduct a good interview, consider the following suggestions:

- Review the application first.
- Prepare the questions you wish to ask in advance.
- Make the applicant comfortable and at ease.
- Don't dominate the conversation—just guide it.
- Listen carefully.
- Ask open enough questions and get the applicant to talk.
- Don't let the interview drag on unnecessarily; keep it businesslike.

It is important to keep in mind that federal legislation prohibits discrimination in hiring based upon race, color, national origin, religion, sex, or age. Therefore, review the application form you use and the questions asked in the interview to insure that they do not illegally discriminate.

After you have interviewed all the applicants, you will have a good idea who is the best candidate for the job. You may want to hire the person at the time. However, there is one other step to take—checking the references. Many small business owners have found it wise to check an applicant's references. This allows you to verify the information you received and to obtain another opinion of the applicant's qualifications. Most references can be checked over the telephone. Talking to former employers may provide you with valuable information. However, it is important to remember that some employers are not always willing to pass on negative information that may hurt an applicant's chances for a new job. If the applicant has been previously discharged from a job, it would be important to know why. In addition, it is helpful to know if a previous employer would rehire the applicant.

Although there are other methods for further evaluating the applicant's qualifications, most owners/managers are ready to make a hiring decision after comparing the job description to the applicant's qualifications and checking the applicant's references.

WHAT ARE THE PROCEDURES FOR DEVELOPING A TRAINING PROGRAM?

The depth and length of training seem to be determined by the detail or level of skill involved in the position and the size of the company. Many businesses assign a coworker to train the new employee. Other companies may have a formal training program with a specific starting time. No matter how small a business might be, some training must occur. Every new employee needs at least, an orientation to the company.

The training program may be on-the-job or it may be classroom training. It may be a combination of both. You will also need to decide how formal or informal the training program needs to be.

You will need to take a close look at the type of training needed. In developing a training program, you might want to consider the following:[1]

- What is the goal of the training?
- What does the employee need to learn?
- What type of training?
- What method of instruction?
- What audio-visual aids will you use?
- What physical facilities will you need?
- What about the timing?
- Who will be selected as instructor?
- What materials should be selected?
- What will the program cost?
- What checks or controls will you use?
- How should the program be publicized?

WHAT ARE THEORY X AND THEORY Y?

Management involves leading your employees so that the work is completed and your goals are accomplished. Hiring and training your new employees is important. However, this alone does not guarantee that your employees will be productive. To insure that they will be productive is the responsibility of the manager. The manager's supervisory style must also be appropriate and compatible with employee needs.

Basically there are two theories of management style. "Theory X" holds that the average worker dislikes work and will avoid it if possible. Therefore, most people must be forced into getting the job done. They must also be strictly controlled. "Theory Y", on the other hand, proposes that people are willing to work hard and exercise self-direction if they feel the objectives are worthy.

An autocratic manager gives orders forcefully, and if necessary, threatens employees. The autocratic manager will also give orders and explanations using "positive reinforcement" or praise if the employee deserves it (Theory X). The democratic manager, on the other hand, gives orders to the employee but allows the employee to make decisions on how to get the job done (Theory Y).

Usually the most effective management style consists of some combination of the autocratic style and the democratic style. Use the one that best suits your personality and business needs. However, for the entrepreneur to develop a loyal and productive employee over time, it is necessary to exercise some democratic principles.

WHAT ARE THE CHARACTERISTICS OF A GOOD SUPERVISOR?

The day-to-day contact with your employees (seeing to it that the work gets done) is called *supervision*. Managing is a broader concept. Supervision is a part of managing. Not only do you need to be an effective manager, but also you need to be a good supervisor.

The supervisor's job is to see that the employees do their jobs, get the work done properly, and maintain a harmonious environment. To do this job, the supervisor must be a good communicator and motivator. In addition to this, the U.S. Small Business Administration offers the following suggestions for supervisors:

- Emphasize skills, not rules.
- Set high standards for yourself and your subordinates.
- Know your subordinates and try to determine what is important to each one.
- Listen thoughtfully and objectively.
- Be considerate and courteous.
- Be consistent in your behavior and mood.
- Give directions in terms of suggestions or requests.
- Delegate responsibility to subordinates when appropriate.
- Have faith in your employees and show them you expect the best.
- Keep your employees informed about the business.
- Ask employees for their suggestions and ideas—then listen carefully.
- Give employees, when possible, a chance to take part in decisions.
- Make your employees feel important and valued.
- Inform your subordinates of their progress or lack of progress in a positive way.
- Offer constructive criticism in private.
- Praise your employees in public.
- Set a good example for your subordinates.
- Be able to accept constructive criticism yourself.
- Be understanding with employee problems.
- Allow employees freedom when it produces positive results.

HOW DO YOU MOTIVATE EMPLOYEES TO BE PRODUCTIVE?

Motivating your employees means learning to understand them and recognizing what is important to them. A paycheck is a motivator, but it takes more than a paycheck to maintain productive and loyal employees. An employee wants meaningful and challenging work that ties in to his or her interests and ambitions.

Motivation comes from two sources. One source of motivation is called *extrinsic*. This is motivation that comes from outside the employee. A paycheck, chance for a raise, or fear of losing a job are examples of extrinsic motivators. Extrinsic motivation may be influenced by the small business owner.

The other source of motivation comes from within the employee. This is called *intrinsic* motivation. The employees' desire to do a good job because of self-satisfaction and personal reward is intrinsic motivation. It is more difficult for the employer to control intrinsic motivation.

To motivate employees, the owner of a small business must begin with basic needs. A safe place to work is the first place to start. Preventing accidents in your business can be of great value to you since employee time will not be lost, worker's compensation will not need to be paid out, and the mental strain of worrying over employees will be minimized. You may want to implement an accident prevention program. You might contact the Red Cross and the Health Department for assistance in setting up a safety program.

The following steps can be followed in setting up such a program:[2]

- Look for hazards.
- Set rules.
- Establish preventive safety maintenance. (Replace damaged items immediately. If something cannot be moved and is in a dangerous spot, paint it a bright color.)
- Investigate for prevention. When an accident occurs, ask three questions:
  a. What happened?
  b. Why did it happen?
  c. What should be done?

Occupational health should be stressed; employees should be made aware of the need for safety precautions. As a part of the safety program, you may want to hold company meetings to train employees in various aspects of safety and health. A Red Cross representative can present a first aid training course. You may also want to have your employees trained in administering cardiopulmonary resuscitation (CPR). More importantly, you should make employees aware of any occupational hazard that may occur specifically in your firm. If you are working with chemicals, for example, the employees should be trained in the first aid treatment for chemical burns.

In 1970, Congress enacted the Occupational Safety and Health Act. This act compels employers to provide their employees with safe and healthy places to work as well as to maintain certain safety and health procedures.

You should contact your State Department of Labor and get information about federal and state health and safety regulations.

The Occupational Safety and Health Administration has the authority to enter and inspect a firm without any notice to the owner. Inspectors can issue citations upon finding violations—as much as $1,000 per violation. If a business does not respond and correct the cited violations, the business can be fined further and face possible criminal prosecution.

Other basic needs of employees include fair wages, acceptable hours, and a reasonably pleasant working environment. Once the small business owner provides these items, it is time to take care of the employees' more personal needs. All employees need to be respected, needed, and appreciated. Your employees are human beings, not machines. It is vital to remember this and to do your best to provide for your employees' personal needs.

To motivate your employees, you need to effectively meet both their basic and personal needs. This requires that you try to understand their personalities, as well as their intrinsic motivators. If you can help your employees realize their goals at the same time they contribute to your business, you have the key to providing the strongest form of motivation. The basic guideline is to treat them the way you would want to be treated.

WHY IS COMPANY COMMUNICATION IMPORTANT?

Both you and your employees can benefit from a company communication system. Company communications should be two-way. Employees can use it to inform you of their thinking and you can use it to make them aware of your concerns and reactions.

Hopefully, your employees will take pride in working for your company and will feel that they are contributing to a successful business operation. Employees who feel as if they are part of a special group are more productive.

HOW DO YOU COMMUNICATE WITH YOUR EMPLOYEES?

An employee handbook serves as a link between you and the employee. When employees begin working for your firm, there will be a great deal of information on things such as work hours, pay, company rules, and so on to provide about the job. With an employee handbook, they can simply review the materials and then meet with you or another employee to discuss any questions. The following subjects should be included in a company handbook:

- Welcome message
- Company description and history
- Career possibilities in the company
- Procedures
  - Working hours
  - Where to report to work
  - How to report time worked
  - Rest periods
  - Absence from work and how to report absences
  - Employment records
  - Pay periods
  - Shift premiums
  - Safety and accident prevention
  - Use of telephone
  - Complaint procedures
- Benefits
  - Vacations
  - Holidays
  - Group Life Insurance
  - Hospitalization and other medical benefits
  - Parking
  - Training programs
  - Personal leave
  - Sick leave
  - Christmas bonus
  - Savings plan
  - Profit-sharing plan
  - Suggestion awards
  - Jury duty
  - Military leave
  - U.S. Old Age Benefits
  - Unemployment compensation
  - Service awards
- Special services
  - Credit union
  - Education plans
  - Medical dispensary
  - Employee purchases
  - Company cafeteria
  - Company magazines
  - Company social events
  - Sports teams or activities

If your company is large enough, you might want to publish a newsletter. It doesn't have to be elaborate or expensive in order to be worthwhile. Before you begin to publish the newsletter, you will need to decide how large it will be and how often it will be printed. Get the costs pinned down. How will you get it printed? Someone will need to type it, do the paste-up, and prepare it for reproduction. Lead times and due dates will need to be determined. Who is going to write it for you? Someone in the firm should coordinate the whole newsletter. Strategies need to be developed to get news contributions from employees. What types of articles do you want to put into it? You might want to feature, for example, one topic in each issue of the newsletter. If safety is an important factor within your business, you might also wish to have a column in each newsletter entitled, "Company Safety Notes."

The interoffice memorandum can also help you communicate with your employees. Always keep a copy of any memos you send to employees. After you have noted the date, to whom you are writing, and from whom the memo is coming, write the message in concise and explicit language. It must be interpreted correctly so the proper action can be taken. The following items are usually included in a memo:

To:	Mary Jones
From:	R. Smith
Date:	January 18, 19--
Subject:	Company Newsletter

(Content): Please contact the printer, B.J. Doe and Company, to determine completion date of January newletter and advise.

Another factor that affects employee motivation and morale is union/employer relations. Although small businesses are generally less unionized than large businesses, there is not necessarily any relationship between company size and unionization.

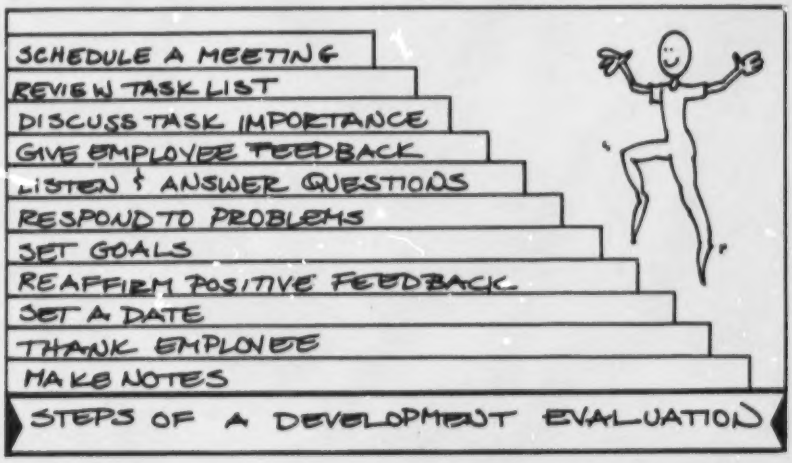
Labor legislation establishes the framework for many union/employee programs. Employers engaged in interstate commerce are required by the National Labor Relations Act to bargain collectively if a majority of employees desire unionization. In fact, discrimination of any type against an employee for union activity is strictly forbidden. The majority of states also recognize by statute the right of labor to organize. However, a number of states have "right to work" laws that limit the extent of unionization by outlawing "union shops" or companies where all employees must belong to a union.

Labor laws are numerous and complex. State laws vary significantly among the states. Most states have a summary of state labor laws available. You should contact your state Department of Labor to get

information regarding the labor regulations for your particular state. Several publishers, including Prentice-Hall, Commerce Clearing House, and the Bureau of National Affairs publish information (all generally available at the local university or public library) on contract clauses and grievance procedures. This information can be helpful to entrepreneurs in negotiating an agreement in day-to-day relations with the union.

HOW DO YOU EVALUATE EMPLOYEE PERFORMANCE?

Evaluating the job performance of your employees is important. It is the means by which you recognize and reward productivity. It also provides a basis for constructive criticism and improvement strategies. Evaluation is necessary to make transfer, promotion, and dismissal decisions.



Job descriptions provide the basis for evaluation. Job criteria for each description will need to be established for evaluation purposes. To determine job criteria, company goals must be established. These criteria (requirements) may include—

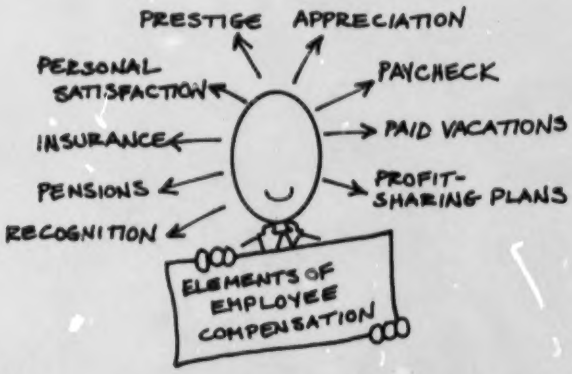
- Accuracy of work
- Attitude toward coworkers
- Attitude toward superiors
- Cleanliness
- Manner in which tools and equipment are handled
- Initiative
- Attendance or days spent at work
- Giving advance notice of absence from work
- Ability to make decisions
- Use of good judgment.

You will need to design an evaluation form. You may want input from your employees to develop the form. Employees should know what the form includes and the criteria by which they will be evaluated. They will then know what kind of behavior is expected of them.

A regular evaluation schedule allows the employees to keep in touch with the progress being made on the job. It also allows the employer to keep abreast of the performance of employees. Regular evaluations give you the information you need to resolve problems quickly and in a positive fashion.

WHAT DOES EMPLOYEE COMPENSATION INCLUDE?

Employee compensation involves the total rewards or benefits your employees receive in return for their work. Although the paycheck is the most common form of compensation, it is just one of the ways for rewarding your employees. Fringe benefits such as paid vacations, insurance, profit-sharing plans, and pensions are considered compensation. You may also reward your employees through nonfinancial rewards such as personal satisfaction, recognition, prestige, and appreciation. Insurance and pensions make up the other two parts of employee compensation.



WHAT ARE THE STEPS IN DEVELOPING AN EMPLOYEE COMPENSATION PACKAGE?

From a practical standpoint, the pay system you choose will depend on what you can afford to pay and what the competition is paying. If possible, however, you should try to develop a standardized pay system.

Employees who are compensated through an established pay system know that their pay is determined in a reasonable and equitable manner—it is not determined by the whims of their supervisor. The U.S. Small Business Administration publication *Setting Up A Pay System* recomends a six-step procedure for establishing a pay system.

- Define the jobs. This is done with the job description.
- Evaluate the jobs. This means ranking the jobs by difficulty and responsibility.
- Price the jobs. This can be done by seeing what the going rate is outside the firm.

- Install the plan. This means determining how the plan will be administered to provide for individual pay increases.
- Communicate the plan to employees. This may be done through personal letters or meetings.
- Appraise employee performance under the plan. This provides input for updating and improving the plan.

To provide adequate employee benefits and services, you will need to consult with experts in the field. Companies are very competitive. Rising medical costs have caused the price of insurance coverage to skyrocket. It is best to shop around. For example, you should contact several different insurance agents and ask them to meet with you to describe the group insurance plans available. You may want to have your employees hear the presentations to be sure the plan selected will suit their needs. Many of the insurance companies who have health plans may also offer a tax-sheltered annuity for those who qualify. Retirement programs or profit-sharing programs are other benefits which may result in great financial rewards for the long-term employee.

HOW DO YOU SELECT AN EMPLOYEE BENEFIT PLAN?

Each employee benefit plan has its disadvantages and advantages. Six commonly used benefit plans are discussed in the following sections. Table 2, "Comparison of Employee Benefit Programs," compares the advantages of each plan.

The **Keyman Deferred Compensation Plan** is primarily for the employer who is limited in the amount of money available for employee benefit plans, and who is interested in rewarding a very few key employees.

The **Thrift Plan** allows the employees to decide how much pay is to be withheld for investment. The employee may withdraw the money in the event of an emergency.

The **Keogh Plan** was designed for sole proprietors of a business or partners in a partnership agreement. Contributions may be up to 10 percent of income. The investment profits are allowed to compound and are deferred from taxation until retirement, disability, or death.

You may choose to establish requirements before an employee can participate in a profit sharing policy. It is common for employers to require the employee to be with the firm three years prior to being eligible to join the profit sharing program. Many entrepreneurs contribute to the program by matching the employee's contribution or making a standard contribution such as 10 percent of the employee's gross salary per year.

The **Money-Purchase Pension Plan** is primarily for entrepreneurs who want to provide a retirement income for employees based on a fixed dollar contribution by the company. This plan has advantages if the average age of the workers is fifty years or more.

The **Pension Plan** allows you to provide for your employees' retirement benefits. The pension investment can be computed at any time. Benefits are usually paid for life after retirement. These plans are expensive to install because an actuarial study (a statistical risk study) is necessary in designing the plan.

TABLE 2

COMPARISON OF EMPLOYEE-BENEFIT PROGRAMS

Points of Comparison	Keyman Deferred Compensation	Thrift Plan
Purpose	Motivate and retain key employees	Provide employee incentive through tax-deferred savings
Incentive value	High	Average
Contributions by company	Definite amount	Percent of employee contribution; can depend on profits
Contributions as percent of wages		
By company	No limit (usually 5-10 percent)	Up to 10 percent
By employee	NA	Up to 6 percent
Benefits	Depends on performance of investment or agreement	Depends on performance of investment
Allocation of contributions and earnings	Not allocated until retirement unless otherwise agreed	Allocated to the account of each employee
Vesting (employee's nonforfeitable share of employer's contributions)	All at retirement or as agreed	All after reasonable period of time (usually ten years)
Disposition of amounts forfeited (unvested portion)	Firm retains	Allocated to account of remaining employees
Ownership	Firm owns	Employee credited with contributed portion + vested amount
Method of payment of benefit	Lump sum or systematic withdrawal	Lump sum or systematic withdrawal
Receive payments before retirement	No, except as agreed	Yes
Tax advantage	If firm is corporation, yes; otherwise, no	Yes
Ease of		
Establishment	Easy	Not too difficult
Administration	Easy	Not too difficult
Understanding	Easy	Easy
Cost (legal, accounting, and so on)		
Establishing without prototype	Under $200	Under $200
Establishing with prototype	Not applicable	No cost
Administration (per year)	None	Under $200
Average age of participants	Generally under fifty years	Generally under fifty years

TABLE 2 (Continued)

Points of Comparison	Keogh Plan	Profit Sharing
Purpose	Provide employee incentive through participation in profits & tax-deferred savings	Same
Incentive value	High	High
Contributions by company	Depends on earned income	Depends on profits
Contributions as percent of wages		
By company	10 percent to limit of $2,500	Up to 15 percent
By employee	10 percent to limit of $2,500	Up to 10 percent
Benefits	Depends on performance of investments	Depends on profits and performance of investment
Allocation of contributions and earnings	Allocated to account of each employee	Allocated to account of each employee
Vesting (employee's nonforfeitable share of employer's contributions)	Immediate	All after a reasonable period of time (usually within ten years)
Disposition of amounts forfeited (unvested portion)	None—immediate vesting	Allocated to account of remaining employees
Ownership	Employee credited with entire balance in his account	Employee credited with his contributed portion plus any vested amount
Method of payment of benefit	Lump sum or systematic withdrawal	Lump sum or systematic withdrawal
Receive payments before retirement	Yes	Yes
Tax advantage	Yes	Yes
Ease of		
Establishment	Easy	Not too difficult
Administration	Easy	Not too difficult
Understanding	Easy	Easy
Cost (legal, accounting, and so on)		
Establishing without prototype	Under $200	Under $750
Establishing with prototype	Under $25	No cost
Administration	Under $200	Under $500
Average age of participants	Generally under sixty years	Under fifty-five years

TABLE 2 (Continued)

Points of Comparison	Money-Purchase Pension Plan	Pension Plan
Purpose	Generally provide incentive through retirement income	Generally promote well-being through fixed retirement income
Incentive value	Average	Low
Contributions by company	Fixed annual dollar amount	Fixed on formula basis
Contributions as percent of wages		
By company	No limit (must be reasonable)	No limit
By employee	Up to 10 percent	Not applicable
Benefits	Depends on performance of investment	Definitely determinable
Allocation of contributions and earnings	Allocated to account of each employee	No allocation required
Vesting (employee's nonforfeitable share of employer's contributions)	All after a reasonable period of time (usually within ten years)	No later than specified retirement age
Disposition of amounts forfeited (unvested portion)	Allocated to account of remaining employees	Must be used to reduce employer's cost of maintaining plan
Ownership	Employee credited with their contributed portion plus any vested amount	Employee has right to pension payments if they qualify
Method of payment of benefit	Lump sum or systematic withdrawal	Life annuity payou.
Receive payments before retirement	Yes, when vested	No, except incidental benefits
Tax advantage	Yes	Yes
Ease of		
Establishment	Not too difficult	Difficult and complex
Administration	Not too difficult	Difficult
Understanding	Easy	Easy
Cost (legal, accounting, and so on)		
Establishing without prototype	Under $750	Over $1,000
Establishing with prototype	No cost	Cost not available
Administration (per year)	Under $500	Over $500
Average age of participants	Over fifty years	Over fifty-five years

SOURCE: U.S. Small Business Administration. *Selecting Employee Benefit Plans.* Management Aid for Small Manufacturers no. 213. Washington, D.C.: U.S. Government Printing Office, n.d. (and out of print).

ACTIVITIES

The following three types of activities are provided so that you can try out what you have learned about managing human resources. After completing each one, check your answers. This will help you to measure your knowledge about managing human resources.

INDIVIDUAL ACTIVITY

On a separate piece of paper, write the word that completes the statement. The number of blanks corresponds with the number of letters in the word.

1. The process of studying a job to determine the tasks it involves is called _ _ B_ _ _ L _ S _ _
2. One commonly used recruiting method is _ _ P _ _ Y _ _ _ _ _ E _ E _ _ _ S.
3. The _ F _ _ _ C _ _ _ _ _ O _ _ is used to gather basic facts about an applicant.
4. The applicant's ability to communicate may be evaluated during the _ _ _ E _ _ I _ _
5. _ E _ _ _ _ N _ _ _ may be checked to verify information received on the application form and in the interview.
6. Much training done by small businesses is done _ _ _ H _ _ O _
7. A manager that believes employees must be threatened in order to get them to do satisfactory work is _ _ T _ _ R _ _ _ _
8. A good supervisor is usually an effective _ _ M _ _ _ I _ _ _ _ _ and motivator.
9. Motivation from fear of losing a paycheck is called _ _ T _ _ N _ _ _ motivation.
10. Some companies use a _ E _ _ _ _ T _ _ _to communicate with employees

GROUP ACTIVITY

Divide into small groups of three to four students. Discuss the kind of questions that you, as an entrepreneur, would ask a prospective employee. You will have to determine the type of job that you are filling. Ask those students that have interviewed for a job to contribute the questions they remember being asked. Be sure to discuss the reason for asking each question. As a result of the discussion, develop—

1. A list of questions to ask an applicant for a specific job.
2. A good reason for asking each question. Include what the applicant's answer will tell the employer.

Each group should make a report to the class on their discussion results. A comparison of the group reports to discover similarities and differences should be also conducted.

CASE STUDY

James Franklin owns and operates a small dry cleaning shop. He has three employees besides his own son and daughter who work regularly. James has always taken the attitude that employees must be supervised closely because otherwise they will loaf. Because of his attitude, James' employees wait for his directions before doing most of the work. They know he is usually standing over them. Therefore, they do not want to risk making a mistake on their own. This bothers James because the employees seem to have no direction or ambition. It reinforces James' negative attitude about employees.

1. Explain what type of management style James has.
2. Explain the other management style that James could use.
3. Describe the difference between extrinsic and intrinsic motivation.
4. Develop a plan for James to motivate his employees to take more initiative and be self-directed.
5. What are the advantages and disadvantages of your plan?

ASSESSMENT

Directions: Read the following questions concerning managing human resources. They are provided for you to check your knowledge about this topic. When you feel ready, ask your instructor to assess your knowledge of them.

1. Identify the steps involved in hiring employees.

2. Describe the procedures for developing a training program.

3. Explain the various styles of management.

4. Describe various techniques that may be used to supervise and motivate employees.

5. Describe various methods for communicating with employees.

6. Discuss various alternatives for evaluating employee performance.

7. Identify the steps in developing a comprehensive employee compensation package.

NOTES

[1]U.S. Small Business Administration. *Checklist for Developing a Training Program.* Instructional Aid No. 186. Washington, DC: U.S. Government Printing Office, 1977.

[2]U.S. Small Business Administration. *Preventing Accidents in Small Stores.* Small Marketers Aid No. 104. Washington, DC: U.S. Government Printing Office, 1979.

[3]U.S. Small Business Administration. *Setting Up a Pay System.* Management Aid No. MA 50006. Washington, DC: U.S. Government Printing Office, 1979.

We thank the above authors for permission to reprint from their work.

OTHER SOURCES USED TO DEVELOP THIS UNIT

Burstiner, Irving. *The Small Business Handbook.* Englewood Cliffs, NJ: Prentice-Hall, 1979.

Dessler, Gary. *Personnel Management.* Reston, VA: Reston Publishing Co., 1978.

Dickson, Franklyn J. *Successful Management of the Small and Medium-Sized Business.* Englewood Cliffs, NJ: Prentice-Hall, 1979.

Flippo, Edwin B. *Personnel Management.* New York: McGraw-Hill Book Co., 1980.

Sieger, William L. *People Management for Small Business.* New York: John Wiley & Sons, 1978.

For further information, consult the list of additional sources in the PACE *Resource Guide.*

Level 2

PACE

Unit 1. Understanding the Nature of Small Business

Unit 2. Determining Your Potential as an Entrepreneur

Unit 3. Developing the Business Plan

Unit 4. Obtaining Technical Assistance

Unit 5. Choosing the Type of Ownership

Unit 6. Planning the Marketing Strategy

Unit 7. Locating the Business

Unit 8. Financing the Business

Unit 9. Dealing with Legal Issues

Unit 10. Complying with Government Regulations

Unit 11. Managing the Business

Unit 12. Managing Human Resources

Unit 13. Promoting the Business

Unit 14. Managing Sales Efforts

Unit 15. Keeping the Business Records

Unit 16. Managing the Finances

Unit 17. Managing Customer Credit and Collections

Unit 18. Protecting the Business

Resource Guide

Instructors' Guide

Units on the above entrepreneurship topics are available at the following three levels:

- Level 1 helps you understand the creation and operation of a business
- Level 2 prepares you to plan for a business in your future
- Level 3 guides you in starting and managing your own business

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